



California Public Employees' Retirement System  
Strategic Management Services Division  
P.O. Box 942701  
Sacramento, CA 94229-2701  
TTY: (916) 795-3240  
(916) 795-3558 phone • (916) 795-3033 fax  
[www.calpers.ca.gov](http://www.calpers.ca.gov)

---

## Agenda Item 3a

August 16, 2011

### TO: MEMBERS OF THE FINANCE COMMITTEE

- I. **SUBJECT:** CalPERS 2010-11 Business Plan Year-End Report
- II. **PROGRAM:** Enterprise
- III. **RECOMMENDATION:** Information
- IV. **ANALYSIS:**

The CalPERS Board of Administration approved the CalPERS 2010-11 Business Plan (Attachment 1) in June 2010. Over the past year, significant achievements in customer service, sustainability, and enterprise internal strength were made through the completion of the plan's 13 objectives. The achievements identified in the Business Plan served as a foundation for our efforts and paved the way for a number of other achievements that support our mission.

#### Overview

In the 2010-11 fiscal year, the collective contributions of our staff resulted in progress on many fronts. The achievements during the year have shown our dedicated customer service to our members, employers and stakeholders, the improved sustainability of our programs, and our unrelenting commitment to greater openness, transparency, and accountability. In addition, CalPERS organizational management and investment practices have increased our efficiencies while generating savings for CalPERS during a time when our State is facing economic difficulties. We believe the culmination of our work is a testament to what our members can count on in CalPERS today and well into the future.

The foundation of our Business Plan centers on three priorities, including

- Customer Focus: Today and Tomorrow
- Leadership and Soundness
- Building Internal Strength

The following is a summary of significant achievements.

***Customer Focus: Today and Tomorrow***

*Focus on improved customer service, while implementing my|CalPERS and transforming our core service delivery to meet the changing needs of members and employers.*

Customer Service

- Aligned our organizational structure to increase customer service efficiencies and maximize the capacity that will be provided by my|CalPERS.
- Increased our capacity to provide proactive education and technical advice on pension issues by establishing our new Pension Policy unit.
- Broadened the use of web-based communication to include educational webcasts, webinars, and virtual member counseling and education services through our regional offices.
- Conducted a successful Employer Educational Forum that drew over 500 representatives from our local contracting employers with a goal of providing greater education to employers on key retirement, health and investment program initiatives and on how they can do business with CalPERS.
- Worked collaboratively with nearly 2,000 employers to develop and implement a manual process to adjust over 30,000 member accounts to restore service credit that would have been lost due to furloughs.
- Processed over 130,000 retirement estimates, 35,000 service and disability retirement applications, 27,700 pre-retirement and post-retirement death benefits, 5,200 Medicare Part B reimbursement requests, and issued 24,000 refund payments and more than 550,000 annual tax statements on time.
- Added 33 new agencies and 23 new groups to existing agencies which brought 22,716 covered lives into the CalPERS Health Program.
- Increased total CERBT fund assets by 48 percent, or \$600 million, to \$1.86 billion.

my|CalPERS

- Completed the recovery efforts on the my|CalPERS project and positioned the organization for the upcoming launch.

***Leadership and Soundness***

*Ensure the stability and soundness of CalPERS pension and health programs by delivering sound investment results, adapting to changing conditions, and exercising leadership in pension, health, and financial market policy.*

**Investments -- \$237.5 Billion Strong**

- Ended the June 30, 2011 Fiscal Year with a 20.7 percent investment return, bringing our 20-year net-annualized return to 8.2 percent, and gaining back over \$70 billion in our investment portfolio since our market low in March 2009.
- Released a report showing CalPERS investment programs have invested more than \$17 billion in California-based companies, properties and projects, helping to generate nearly 1 million jobs throughout California.
- Adopted a new risk-focused investment strategy, a landmark and innovative investment plan that places our investments into one of five major groups, or classifications, according to how they function in high- or low-growth markets and how they respond to the prevailing inflation environment.
- Completed a comprehensive restructure of the real estate portfolio and a new Real Estate Strategic Plan.
- Launched a Web-based Investment Proposal Tracking System that enables money managers to submit proposals directly to CalPERS without the need of placement agents, and levels the playing field.
- Successfully advocated for financial market reforms that give a greater voice to investors, bring accountability to corporate board rooms and give investors access to the proxy.
- Received the 2011 Pacesetter Award by the National Association of Securities Professionals (NASP) for our longstanding efforts to develop innovative investment programs designed to increase the participation of women and minorities in the financial industry.
- Initiated the development of the Diverse Director Database -- a new digital resource devoted to finding untapped diverse talent to serve on corporate boards.
- Reduced operational costs by \$302 million including a reduction of annual management fees of \$73 million and a one-time cost reduction of \$229 million including fees renegotiated through the special review.

- Based on our participation in the CEM Benchmarking Survey, CalPERS manages more assets internally and more assets passively than peers resulting in a significant cost advantage.

### Pension Policy

- Developed and published several significant papers that contribute to the policy discussion on pensions including:
  - A white paper on the impact of closing a defined benefit pension plan,
  - A summary of the law on vested rights as it relates to public pension benefits in California, and
  - A comprehensive report on the economic footprint that the pension payments have on the California economy.
- Developed and launched program to provide expanded sensitivity analysis of employers' rates in all employer valuations to provide greater transparency and additional information.
- Developed and disseminated a pension tool kit for elected officials, to promote greater education of pensions and assist in policy and decision making.
- Developed and adopted a policy platform on issues of retirement security for use in the national arena.
- Provided ongoing technical support and costing analyses to the Legislature and Administration on pension proposals.
- Addressed pension spiking issues by strengthening the transparency, compliance and accountability of public employee compensation through:
  - Adoption of a regulation to increase the transparency standard for making local pay scales publicly available.
  - Establishment of a partnership with employer and employee representatives via the creation of the Public Employee Compensation and Benefits Task Force to enhance disclosure and identify alternative means to prevent abuse.
  - Implementation of improved mitigation techniques and controls to ensure inflated compensation is identified and addressed.
  - Publication of CalPERS public agency reviews to the CalPERS website to provide the general public and stakeholders with information on public agency compliance.

### Affordable Health Care

- Instituted benefit design changes to implement national health care reforms eliminating lifetime and annual dollar limits, extending dependent coverage to more than 27,000 dependents up to age 26 and eliminating co-payments for certain commercial and Medicare health plan preventive services.
- Negotiated a modest overall average health care premium increase of 4.1 percent for 2012, well below the projected national trend of 8.5 percent.
- Applied for and received \$98 million in funding from the Early Retiree Reinsurance Program.
- Successfully negotiated the new Pharmacy Benefits Manager contract.
- Earned a \$15.5 million savings in our integrated health care pilot program in partnership with Blue Shield of California, Hill Physicians Medical Group and Catholic Healthcare West. First year results showed a 50 percent reduction in hospital stays of 20 or more days.
- Launched a Knee/Hip Replacement pilot program in partnership with Anthem Blue Cross to establish a threshold of \$30,000 for these procedures using designated, high quality facilities that have historically shown quality care at more efficient costs.

### ***Building Internal Strength***

*Provide world-class customer service to our members and employers by positioning the enterprise so there is alignment between culture, business strategy, and organization structure. Create an environment of accountability, integrity, transparency, nimbleness, and innovation utilizing a high-performing employee team with a broad and diverse range of skills, ideas, and perspectives.*

### A Focus on Ethics, Accountability, and Transparency

- Sponsored and obtained passage of landmark laws that requires placement agents to register as lobbyists and bans contingency fees.
- Established the Office of Enterprise Risk Management and Enterprise Chief Risk Officer position.
- Launched a new 24-7 Ethics Helpline to identify fraud and waste.
- Established a dedicated unit to increase responsiveness to Public Records Act Requests, and launched a new online application tool that makes it easier to file requests.

- Increased transparency through new policies to post travel costs and financial disclosure statements on our website, prohibit staff from accepting gifts from business partners, and require contractors to disclose business connections and gifts.
- Revisited our core values to ensure we are living them in our daily work and that they help us fulfill our mission.
- Strengthened our organizational structure by adding a new Chief Financial Officer position to improve our financial management, and two new functional groups to enhance customer service, thought leadership, and innovation.

#### Diversity

- A 2011-12 Diversity and Inclusion Business Plan has been developed to integrate and leverage diversity and inclusion in all aspects of the CalPERS operations. The plan includes recommendations from staff-led teams.
- Achieved a 7.54 percent overall increase to last years Disabled Veteran's Business Enterprise / Small Business participation levels.
- To promote internal awareness, diversity-related articles were published in internal newsletters, a brown bag lunch speaker series was conducted, closed captioning in video communications was implemented and leadership commitment was expanded by adding diversity and inclusion commitments in management performance appraisals.
- For external business partners, Webinars and an in-person event for emerging investment managers were conducted and training was provided to increase small business and disabled veteran business enterprise contracting. As noted above, the development of the investment web portal simplifies access and provides a level playing field. And, the new Diverse Director Database is dedicated to identifying untapped talent to serve on corporate boards.
- New solicitations for outside legal counsel were released, expanding the pool in the areas of health care law, labor and employment, business litigation, family law and community property.

#### Organizational Management Practices

- Generated almost \$1 billion dollars in cost savings in 2010 by increasing operational efficiency while reducing waste and redundancy.
- Maintained a position vacancy rate of 5.3 percent.

- Ensured all Form 700 Statements of Economic Interest for scheduled employees were filed by the mandated due date of April 1, 2011.
- Made significant progress in decreasing the number of audit findings that have been unresolved for over 12 months.
- Managed the Enterprise to maintain zero budget growth for mid-year and annual processes.
- Completed a Contract Reform project that will reduce the request for proposal and contracting process timeline by 50 percent, making it more nimble and responsive to customer and user needs while ensuring that legal and other control requirements are fulfilled.

### **Conclusion**

The events of the last decade that have impacted our State, our country and our world – 9/11, Enron, the Great Recession and our own lapses in internal management controls – make it crystal clear that CalPERS must continue to respond to the challenges to ensure we provide retirement and health security for all our members, and maintain the public trust of all Californians.

The achievements realized through 2010-11 Business Plan keep our organization focused on addressing three fundamental objectives -- an unrelenting commitment to customer service and retirement and health security for our members, higher standards for openness, accountability, and transparency, and perseverance as a responsible investor and steward of the nation's largest public pension fund.

## **V. STRATEGIC PLAN:**

This item provides a year-end summary on the achievements of Business Plan objectives and initiatives, which are directed to supporting and meeting the goals of the CalPERS Strategic Plan.

## **VI. RESULTS/COSTS:**

Cost and resource needs associated with the objectives and initiatives identified in the Business Plan were allocated in the CalPERS 2010-11 Annual Budget.

---

NANCY QUINLAN, Chief  
Strategic Management Services Division

---

STEPHEN W. KESSLER  
Deputy Executive Officer  
Operations and Technology

---

ANNE STAUSBOLL  
Chief Executive Officer

Attachment